

Financial statements (unaudited and in US \$):

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Notice of no auditor review of interim financial statements

The following interim financial statements of the Company, as at and for the periods ended June 30, 2009 and 2008 have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established for a review of interim financial statements by the entity's auditor.

Hamilton Thorne, Inc.

Balance Sheets (Unaudited and in US \$)

	June 30, 2009	December 31, 2008
Assets		
Current assets:		
Cash	\$ 2,920	\$ 5,029
Accounts receivable, less allowance for doubtful accounts of \$7,000 at June 30, 2009 and \$5,000 at December 31, 2008	482,663	958,239
Inventories, net	627,439	633,212
Prepaid expenses and other current assets	52,901	45,161
Note receivable, officer (Note 7)	23,385	22,963
Total current assets	1,189,308	1,664,604
Property and equipment, net (Note 1)	138,577	131,920
Other assets	120,241	116,881
Total assets	\$ 1,448,126	\$ 1,913,405
Liabilities, Redeemable Convertible Preferred Stock and Stockholders' Deficit		
Current liabilities:		
Notes payable, banks (Note 2)	\$ 4,990,000	\$ 4,970,000
Notes payable, shareholder (Note 7)	25,000	25,000
Notes payable, officers (Note 7)	55,958	56,069
Notes payable, other (Note 6)	13,886	-
Accounts payable, trade	721,617	743,203
Accrued expenses and other current liabilities	396,295	350,348
Current portion of obligations under capital lease	5,888	5,888
Deferred revenue	19,027	22,382
Total current liabilities	6,227,671	6,172,890
Subordinated notes payable (Note 3)	300,000	-
Obligation under capital lease	10,897	14,725
Total liabilities	6,538,568	6,187,615
Commitments and contingencies (Note 8)		
Series C-2 redeemable convertible preferred stock, \$.01 par value: 5,809 shares authorized, issued and outstanding at (liquidation value of \$3,680,207)	2,055,082	1,990,078
Stockholders' deficit (Notes 4 and 5):		
Preferred stock, 33,622 shares authorized		
Series A convertible, \$.01 par value: 6,243 shares authorized, issued and outstanding (liquidation value of \$2,193,478)	1,150,039	1,150,039
Series B convertible, \$.01 par value: 8,676 shares authorized, issued and outstanding (liquidation value of \$7,267,278)	11,180,413	11,180,413
Series C-1 convertible, \$.01 par value: 12,894 shares authorized and 11,789 shares issued and outstanding (liquidation value of \$10,646,479)	5,294,768	5,294,768
Common stock, \$.01 par value, voting, 166,378 shares authorized and 8,500 shares issued and outstanding	85	85
Additional paid-in capital	2,902,854	2,948,408
Accumulated deficit	(27,673,683)	(26,838,001)
Total stockholders' deficit	(7,145,524)	(6,264,288)
Total liabilities, redeemable convertible preferred stock and stockholders' deficit	\$ 1,448,126	\$ 1,913,405

See accompanying summary of significant accounting policies and notes to financial statements.

Hamilton Thorne, Inc.

Statements of Operations and Deficit (Unaudited and in US \$)

<i>Six and three months ended June 30,</i>	Six Months		Three Months	
	2009	2008	2009	2008
Revenues	\$2,134,424	\$2,675,283	\$1,018,870	\$1,438,163
Cost of revenues	823,073	1,009,258	404,212	519,877
Gross profit	1,311,351	1,666,025	614,658	918,286
Operating expenses:				
Research and development	397,697	407,870	220,924	226,483
Selling and marketing	910,004	1,112,460	467,469	589,831
General and administration	741,653	719,575	359,188	386,772
Total operating expenses	2,049,354	2,239,905	1,047,581	1,203,086
Loss from operations	(738,003)	(573,880)	(432,923)	(284,800)
Interest (expense) income:				
Interest expense (Notes 2, 3, 6 and 7)	(98,101)	(144,513)	(50,977)	(69,762)
Interest income	422	695	213	321
Total interest expense, net	(97,679)	(143,818)	(50,764)	(69,441)
Loss from continuing operations	(835,682)	(717,698)	(483,687)	(354,241)
Loss from discontinued operations	-	(26,258)	-	182,140
Net loss	\$(835,682)	\$(743,956)	\$(483,687)	\$(172,101)
Deficit, beginning of period	(26,838,001)	(25,747,979)	(27,189,996)	(26,319,834)
Deficit, end of period	(27,673,683)	(26,491,935)	(27,673,683)	(26,491,935)

See accompanying summary of significant accounting policies and notes to financial statements.

Hamilton Thorne, Inc.

Statements of Cash Flows (Unaudited and in US \$)

<i>Six and three months ended June 30,</i>	Six Months		Three Months	
	2009	2008	2009	2008
Cash flows from operating activities:				
Net loss	\$(835,682)	(743,956)	(483,687)	(172,101)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:				
Depreciation and amortization	57,402	75,252	27,951	35,688
Share-based compensation expense	19,450	19,500	9,700	9,750
Changes in operating assets and liabilities:				
Accounts receivable	475,576	216,473	30,246	78,376
Inventories	5,773	36,405	(486)	(31,914)
Prepaid expenses and other current assets	(8,162)	15,910	(23,914)	(49,043)
Other assets	(9,402)	(2,712)	(7,734)	(4,287)
Accounts payable, trade	(21,586)	(1,304)	68,824	125,523
Accrued expenses and other current liabilities	45,947	(288,886)	93,635	(238,602)
Deferred revenue	(3,355)	2,196	5,770	8,139
Net cash provided by (used in) operating activities	(274,039)	(671,122)	(279,695)	(238,471)
Cash flows from investing activities:				
Purchase of property and equipment	(58,017)	(135,982)	(16,493)	(12,905)
Net cash used in investing activities	(58,017)	(135,982)	(16,493)	(12,905)
Cash flows from financing activities:				
Proceeds from notes payable, banks	130,000	738,113	60,000	155,000
Principal payments on notes payable, banks	(110,000)	-	-	-
Proceeds from subordinated notes payable	300,000	-	200,000	-
Proceeds from notes payable, other	17,714	44,107	17,714	44,107
Principal payments on notes payable, other	(3,828)	(14,828)	(3,828)	(4,813)
Principal payments on obligations under capital leases	(3,828)	(2,447)	(1,480)	(1,651)
Principal payments on notes payable, officers	(111)	(146)	(37)	(49)
Principal payments on installment notes	-	(8,807)	-	(4,446)
Net cash provided by financing activities	329,947	755,992	272,369	188,148
Net increase in cash	(2,109)	(51,112)	(23,819)	(63,228)
Cash at beginning of period	5,029	52,998	26,739	65,114
Cash at end of period	\$2,920	\$1,886	\$2,920	\$1,886

See accompanying summary of significant accounting policies and notes to financial statements.

Nature of Business

Hamilton Thorne, Inc. (the “Company”) was originally incorporated in 1997 in Delaware as Hamilton Thorne Research, Inc. The Company changed its name to Hamilton Thorne Biosciences, Inc. during the year ended December 31, 2001 and subsequently changed its name to Hamilton Thorne, Inc. during the year ended December 31, 2008. The Company’s principal business is the development, manufacture and sale of advanced laser systems and instruments for in-vitro cell applications in the medical research and fertility markets.

Basis of Presentation

The interim financial statements presented herein were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim periods. In managements’ opinion, these financial statements reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the Company’s financial position for the periods disclosed.

Although management believes the disclosures in these financial statements are adequate to make the information presented not misleading, certain information normally included in the footnotes prepared in accordance with GAAP has been omitted. Accordingly, these financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2008 and the filing statement filed on SEDAR August 31, 2009 in respect of the Qualifying Transaction involving the merger of a subsidiary of Calotto Capital Inc. into Hamilton Thorne, Inc. Interim results are not necessarily indicative of the results that may be expected for a full year.

Liquidity, Going Concern and Management's Plan

As shown in the accompanying financial statements, the Company has incurred recurring losses from operations and as of June 30, 2009, the Company's current liabilities exceeded its current assets by \$5,038,363 and had a stockholders' deficit of \$7,145,524. Additionally, the Company has an accumulated deficit of \$27,673,683 at June 30, 2009. These factors raise substantial doubt about the Company's ability to continue as a going concern. In order for the Company to remain a going concern, it will require significant additional funding in the near term. The Company is exploring opportunities to raise capital through equity offerings, the issuance of debt securities, strategic alliances, and other financing vehicles (see Note 9). However, there can be no assurance that any such additional financing will be available to the Company on the terms that it deems acceptable, if at all. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Discontinued Operations

On May 5, 2008, the Company completed the Spin-off of its molecular biology business to Thorne Diagnostics, Inc. ("TDI"), a newly formed corporation (the "Spin-off"). Shares of common and preferred stock of TDI were issued to the Company and these shares were then distributed to the Company's shareholders on a pro-rata basis in the form of a dividend. The Spin-off included the transfer of certain assets, including certain contracts and license agreements, historical data, intellectual property and five employees. The Spin-off was undertaken as the molecular biology business was judged to not be a strategic fit with its equipment business.

The molecular biology business never generated any revenues and the net loss from the discontinued operations for the six months ended June 30, 2008 was \$26,258. The financial results for the molecular biology business are reported as a single line item in "Loss from discontinued operations" for all periods presented.

Revenue Recognition

The Company recognizes revenue from product sales upon shipment provided there is persuasive evidence of an arrangement, delivery has occurred, there are no uncertainties surrounding acceptance, collectibility is probable, the fee is fixed or determinable and only perfunctory Company obligations included in the arrangement, if any, remain to be completed. The Company also sells service contracts for service and maintenance of the underlying product beyond the warranty period. The Company defers revenue upon entering into the agreement and recognizes revenue over the contract period.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk

The Company has no significant off-balance-sheet risk. Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of accounts receivable. The Company grants credit to a limited number of customers who are located worldwide. Collateral is generally not required. For international sales that are not prepaid, the Company generally requires letters of credit before shipment.

The Company maintains reserves for potential credit losses and such losses in the aggregate have not exceeded management's expectations. As of June 30, 2009 there were four customers that accounted for approximately 47% and at December 31, 2008 there were three customers that accounted for approximately 50% of the Company's accounts receivable balance. For the six months ended June 30, 2009, three customers accounted for approximately 33% of total revenues. For the six months ended June 30, 2008, two customers accounted for approximately 24% of total revenues.

Inventories

Inventories are stated at the lower of cost or market using the first-in, first-out method ("FIFO"). Inventories are reviewed periodically for slow-moving or obsolete status based on sales activity, both projected and historical, and allowances are established for inventory that is determined to be obsolete. Such allowances have been immaterial to date. Inventories consist of the following:

	June 30, 2009	December 31, 2008
Raw materials	\$596,647	\$572,669
Work-in-progress	29,125	19,019
Finished goods	1,667	41,524
	\$627,439	\$633,212

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Costs of maintenance and repairs are charged to expense while costs of significant renewals and betterments are capitalized. Leasehold improvements are depreciated over the lesser of the term of the related lease or the estimated useful lives of the assets. Depreciation is computed using primarily the straight-line method calculated to amortize the cost of the assets over their estimated useful lives as follows:

<i>Category</i>	Useful Life in Years
Machinery and equipment	2-5
Furniture and fixtures	7-10
Leasehold improvements	Lesser of estimated useful life or life of lease

Long-Lived Assets

In accordance with Statement of Financial Accounting Standards (“SFAS”) No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”, the Company recognizes impairment losses on long-lived assets when indicators of impairment are present and future undiscounted cash flows are insufficient to support the assets’ recovery. As of June 30, 2009 and December 31, 2008, management believes no impairment of long-lived assets exists.

Advertising Costs

The Company expenses the costs of advertising and marketing as incurred. Advertising costs were \$62,157 and \$71,883 for the six months ended June 30, 2009 and 2008, respectively, and includes tradeshow expenses and marketing materials and is included in selling and marketing expenses in the accompanying statements of operations.

Research and Development

Research and development costs related to both future and present products are charged to operations as incurred. Research and development expense primarily consists of salaries and related expense for personnel and consulting services as well as the costs of material used, information technology, and facility costs.

The Company accounts for internal use software costs in accordance with Statement of Position (“SOP”) 98-1, “*Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*” (“SOP 98-1”), which requires software development costs associated with internal-use software to be charged to operations as incurred until certain capitalization criteria are met. Additionally, the Company develops software for inclusion in their products sold to customers and evaluates such costs pursuant to SFAS No. 86, “*Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed*”, to account for software development costs. This statement specifies that costs incurred to develop computer software products shall be charged to expense when incurred as research and development until technological feasibility has been established for the products. Technological feasibility is established upon completion of a working model. Thereafter, all software production costs are capitalized and subsequently reported at the lower of unamortized cost or net realizable value. During the six months ended June 30, 2009 and 2008, respectively, the Company capitalized no software costs since there were no projects qualifying for capitalization.

Income Taxes

Hamilton Thorne, Inc. accounts for income taxes in accordance with SFAS No. 109, “*Accounting for Income Taxes*” (“SFAS No. 109”). Under SFAS No. 109, the liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Income Taxes
(Continued)

On July 13, 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—An Interpretation of FASB Statement No. 109* (“FIN 48”), which clarifies the accounting for uncertainty in income taxes recognized in an entity’s financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*, and prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Under FIN 48, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2008 for non-public companies.

The Company adopted the provisions of FIN 48 on January 1, 2009, and has commenced analyzing filing positions in all of the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. As a result of adoption, the Company has recorded no additional tax liability. As of June 30, 2009 the Company has completed a preliminary analysis of the deferred tax assets for net operating losses of approximately \$22,900,000 generated in years prior to 2009.

The Company is subject to taxation in the U.S. and state jurisdictions. The Company’s tax years for 1997 and forward are subject to examination by the U.S. and primarily Massachusetts state tax authorities due to the carryforward of unutilized net operating losses. The Company is currently not under examination by any taxing authorities.

The Company’s practice is to recognize interest and/or penalties related to income tax matters in income tax expense. During the six months ended June 30, 2009, the Company did not recognize any interest or penalties.

Income Taxes
(Continued)

The adoption of FIN 48 did not impact the Company's financial condition, results of operations or cash flows. At December 31, 2008, the Company had deferred tax assets of approximately \$8,702,000. These deferred tax assets are primarily composed of depreciation and amortization, capitalized research and development costs, deferred revenue, share-based compensation expense and net operating loss carryforwards. Due to uncertainties surrounding the Company's ability to generate future taxable income to realize these assets, a full valuation allowance has been established to offset the net deferred tax asset. Additionally, the future utilization of the Company's net operating loss carryforwards to offset future taxable income may be subject to an annual limitation as a result of ownership changes that may have occurred previously or that could occur in the future. The Company continues to evaluate whether such an ownership change has occurred; however the Company has maintained that the reported net operating loss carryforwards meet the more likely than not characteristic and therefore continue to include them as deferred tax assets offset by a full valuation allowance.

Share-Based Compensation

SFAS No. 123(R) "*Share-Based Compensation*," requires non-public companies that used the minimum value method in SFAS No. 123 for either recognition or pro forma disclosures to apply SFAS No. 123(R) using the prospective-transition method. In accordance with SFAS No. 123(R), the Company will recognize the compensation cost of share-based awards on a straight-line basis over the vesting period of the award. During the six months ended June 30, 2009 and 2008, share-based compensation of \$19,450 and \$19,500, respectively, was recorded in the financial statements under this method.

**Recently Adopted
Accounting Standards**

In November 2007, the Emerging Issues Task Force (“EITF”) issued EITF Issue 07-01, “*Accounting for Collaborative Arrangements*,” (“EITF No. 07-01”). EITF No. 07-01 requires collaborators to present the results of activities for which they act as the principal on a gross basis and report any payments received from (made to) other collaborators based on other applicable GAAP or, in the absence of other applicable GAAP, based on analogy to authoritative accounting literature or a reasonable, rational, and consistently applied accounting policy election.

Further, EITF No. 07-01 clarified that the determination of whether transactions within a collaborative arrangement are part of a vendor-customer (or analogous) relationship subject to Issue 01-9, *Accounting for Consideration Given by a Vendor to a Customer*. EITF No. 07-01 is effective for fiscal years beginning after December 15, 2008 and was adopted by the Company on January 1, 2009. The adoption of EITF 07-01 did not have a material impact on the consolidated financial position, results of operations or cash flows.

Effective January 1, 2009, the Company adopted EITF Issue No. 07-05, *Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity’s Own Stock* (“EITF 07-05”). EITF 07-05 mandates a two-step process for evaluating whether an equity-linked financial instrument or embedded feature is indexed to the entity’s own stock, for the purpose of applying the Paragraph 11(a) scope exception in FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. Upon the adoption of EITF 07-05, equity instruments that a company issues that contain a strike price adjustment feature may no longer be considered indexed to the company’s own stock. Accordingly, adoption of EITF 07-05 may change the current classification (from equity to liability) and the related accounting for such equity instruments outstanding at that date. The adoption of this standard did not change the classification of the Company’s conversion feature embedded in the Series C-1 and Series C-2 convertible preferred stock.

1. Property and Equipment

Property and equipment consists of the following:

	June 30, 2009	December 31, 2008
Property and equipment, at cost:		
Machinery and equipment	\$1,041,921	\$ 984,597
Furniture and fixtures	94,508	94,508
Leasehold improvements	35,129	35,129
	1,171,558	1,114,234
Less: accumulated depreciation	1,032,981	982,314
Property and equipment, net	\$ 138,577	\$ 131,920

Depreciation expense for the six month periods ended June 30, 2009 and 2008 was \$51,360 and \$59,124, respectively.

- 2. Notes Payable - Bank** The Company consolidated two separate line of credit agreements with different banks into a line of credit with one bank in October 2007. The agreement provides for a maximum borrowing of \$5,000,000. Borrowings under the agreement are on demand and bear interest at the LIBOR 30 Day Index Rate plus 2% based on the date of the borrowing. As of June 30, 2009, borrowings totaled \$4,990,000 with interest at 4%. At December 31, 2008, borrowings totaled \$4,970,000. Borrowings under the agreement are collateralized by a security interest in substantially all the Company's assets and by letters of credit provided by two stockholders.

- 3. Subordinated Notes Payable** During the six months ended June 30, 2009 a shareholder lent the Company a total of \$300,000 on three subordinated convertible promissory notes, payable two years from the date of the notes. The notes are convertible into equity, at the option of the holder, in the next round of equity financing that raises a minimum of \$1.5 million and bears interest at the prime rate (3.25% at June 30, 2009), plus 1%. The notes are subordinated to the Company's bank line of credit and cannot be paid without the express written permission of the bank.

- 4. Stock Option Plan** The 2001 Stock Option Plan (the “2001 Plan”) was adopted on May 24, 2001. This 2001 Plan provides for the granting of incentive stock options and non-qualified stock options to directors, employees, consultants, and independent contractors who are employed by or perform services for the Company. The exercise price and vesting schedule applicable to each option grant is determined by the Board of Directors or a Committee thereof. During 2003, the shareholders approved an increase of 234 in the number of shares available under the 2001 Plan. At June 30, 2009, no options are outstanding and 2,374 shares are available for future grant under the 2001 Plan.

The 2007 Stock Option Plan (the “2007 Plan”) was adopted on April 24, 2007. This 2007 Plan provides for the granting of incentive stock options and non-qualified stock options to directors, employees, consultants, and independent contractors who are employed by or perform services for the Company. The exercise price and vesting schedule applicable to each option grant is determined by the Board of Directors or a Committee thereof. During the six months ended June 30, 2008 1,021 options were granted at a price of \$62 and no options were granted during the six months ended June 30, 2009. As of June 30, 2009 there are 2,297 options outstanding of which 1,012 are exercisable. At June 30, 2009, 6,622 shares are available for future grant under the 2007 Plan. Options generally vest over three or four years.

- 5. Warrants** As of June 30, 2009, the Company has outstanding warrants to purchase 8,734 shares of stock of which 1,105 are for the purchase of Series C-1 Preferred Stock and the remainder are for the purchase of common stock. All warrants are fully exercisable as of June 30, 2009. The warrants are exercisable for \$0.01 per share.

6. Notes Payable – Other

The Company finances certain of its annual insurance premiums through an installment plan provider over nine monthly payments. During the six month periods ended June 30, 2009 and 2008, the Company financed premiums of \$17,714 and \$44,107, respectively, at interest rates of 9.51% and 7.71%, respectively. At June 30, 2009 the principal balance outstanding was \$13,886.

7. Related Party Transactions

At June 30, 2009, the Company was indebted to certain officers under different unsecured notes payable bearing interest at 7%. In December 2008 an officer of the Company lent \$50,000 on a promissory note payable subordinated to the bank line of credit with interest at the prime rate (3.25% at June 30, 2009), plus 1%. Total indebtedness to officers at June 30, 2009 and December 31, 2008 amounted to \$55,958 and \$56,069, respectively.

In October 2006, the Company issued a promissory note for \$50,000 to a shareholder with interest at the prime rate (3.25% at June 30, 2009), plus 1% payable on demand and repaid \$25,000 on the same note leaving a balance of \$25,000 outstanding as of December 31, 2008 and June 30, 2009.

As previously stated in Note 3 a shareholder lent the Company \$300,000 on subordinated convertible promissory notes and accordingly the principal balance outstanding is \$300,000 at June 30, 2009.

In January 2007, the Company lent \$20,000 to an officer on a promissory note bearing interest at the prime lending rate (3.25% at June 30, 2009), plus 1%. At June 30, 2009 and December 31, 2008 total indebtedness to the Company totaled \$23,385 and \$22,963, respectively.

8. Commitments and Contingencies

Lease Commitments

The Company leases certain facilities under a non-cancelable long-term operating lease expiring in January 2013. The agreement provides for fixed minimum rental payments and requires the payment of utilities, insurance, and repairs. The Company also leases operating equipment which requires fixed minimum rental payments over the terms of the lease. For the six months ended June 30, 2009 and 2008, total rent expense under all lease agreements amounted to \$210,686 and \$188,705, respectively.

Future minimum rental payments required under operating leases are as follows:

<i>Years ending December 31,</i>	<i>Amount</i>
July 1, 2009 to December 31, 2009	\$ 207,831
2010	412,093
2011	376,257
2012	361,742
2013	30,145
Total	\$1,388,068

Litigation

From time to time, the Company is a party to various legal proceedings incidental to its business. The Company believes that none of the legal proceedings, that are presently pending, if adversely decided against the Company, will have a material adverse effect upon its financial position, results of operations or liquidity.

9. Subsequent Events

A director of the Company lent \$75,000 in August 2009 and \$50,000 in September 2009 on subordinated convertible notes, payable two years from the date of the note. The notes are convertible into equity, at the option of the holder, in the next round of equity financing that raises a minimum of \$1.5 million and bear interest at the prime rate (3.25% at June 30, 2009), plus 1%. Further in August 2009 a shareholder lent \$100,000 on the same terms and conditions as the above notes. All the notes are subordinated to the Company's \$5,000,000 bank line of credit and cannot be paid without the bank's permission. In October 2009 at the time of the private placement closing, a total of \$475,000 of such notes were converted into equity (see note 3 above), leaving one \$50,000 note still outstanding.

Effective September 30, 2009, the Company and its bank amended their \$5,000,000 loan and security agreement and replaced the line of credit note which changed the note from being payable on demand to being payable at maturity on October 1, 2011 ("Loan Termination Date").

In October 2009 the Company completed financings including a private placement and a debt conversion for a total gross amount of Cdn\$2,200,000 through the issuance of 18,098.655 units consisting of one share of common stock and a warrant to purchase one share of common stock of the Company, at a price of Cdn\$121.556 per unit. Excluding the conversion of Cdn\$503,500 of subordinated convertible notes, the private placement yielded gross cash proceeds of Cdn\$1,696,500 with approximate net proceeds of Cdn\$1,280,000 after related expenses. The Company also issued warrants to the agent facilitating the transaction to purchase units for a period of eighteen months.

In October 2009, concurrent with the above financings, the Company completed a reverse take-over of an existing Canadian company in a transaction whereby the Company became a wholly-owned subsidiary of the publicly listed company on the TSX Venture Exchange ("Parent") and the Company's stockholders gained control of the Parent. It is estimated that after payment of all the expenses of the transaction that the Company and Parent, on a consolidated basis, will have cash of approximately Cdn\$400,000 available to fund future operations. As part of this transaction all outstanding warrants issued by the Company prior to the private placement referred to above were exercised, all preferred shares in the Company were converted into common shares, and all common shares of the Company were converted into 303.89 common shares of the Parent. Additionally, each of the private placement units were replaced by 303.89 shares of common stock of the

Parent and warrants to purchase 303.89 shares of common stock of the Parent, and all options issued by the Company and the warrants issued to the agent were similarly replaced and adjusted.

10. Reconciliation of U.S. GAAP to Canadian GAAP

The financial statements of the Company as of June 30, 2009 and December 31, 2008 and for the three months and six months ended June 30, 2009 and 2008, respectively, have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). There are no material differences between generally accepted accounting principles in Canada (“Canadian GAAP”) and U.S. GAAP, except with respect to the presentation of the shares of Series C-2 Preferred.

Under U.S. GAAP, shares of preferred stock that are conditionally redeemable are required to be presented on the balance sheet in their own section between liabilities and stockholders’ equity known as mezzanine. Under Canadian GAAP, the shares of preferred stock that are retractable or mandatorily redeemable are grouped with liabilities and the value allocated to the conversion feature is presented in equity. Under Canadian GAAP, transaction costs have been accounted for as adjustments to the carrying amount of the debt on initial recognition. The resulting carrying amount of the debt instrument is being accreted on an effective yield basis over the term of the debt. Accretion on the debt instrument is recorded through the statement of operations. During the year ended December 31, 2008, the Company modified the terms of the preferred shares subsequent to the Spin-off. The modification was accounted for as an extinguishment of the original debt instrument and the recognition of a new debt instrument. Because the transaction was a related party transaction, the difference between the carrying amount of the debt instrument deemed extinguished and the fair value of the new debt instrument was recorded as a credit to contributed surplus.

10. **Reconciliation of U.S. GAAP to Canadian GAAP** The following is selected financial information:
(Continued)

<i>Consolidated Balance Sheets (in US \$)</i>	As at	
	June 30, 2009	December 31, 2008
Total assets under U.S. GAAP and Canadian GAAP	\$ 1,448,126	\$ 1,913,405
Total liabilities under U.S. GAAP	\$ 6,538,568	\$ 6,187,615
Adjustments:		
Convertible Redeemable Preferred Stock	\$ 1,464,971	\$ 1,389,593
Total liabilities under Canadian GAAP	\$ 8,003,539	\$ 7,577,208
Total stockholders' deficit under U.S. GAAP	\$(7,145,524)	\$ (6,264,288)
Adjustments:		
Gain on extinguishment with a related party	\$ 817,776	\$ 817,776
Accretion of the Convertible Redeemable Preferred Stock	(227,665)	(217,291)
Total stockholders' deficit under Canadian GAAP	\$(6,555,413)	\$ (5,663,803)
Total Convertible Redeemable Preferred Stock under U.S. GAAP	\$ 2,055,082	\$ 1,990,078
Adjustments:		
Convertible Redeemable Preferred Stock	\$(2,055,082)	\$ (1,990,078)
Total Convertible Redeemable Preferred Stock under Canadian GAAP	\$ -	\$ -
Total liabilities, Convertible Redeemable Preferred Stock and stockholders' deficit under U.S. GAAP and Canadian GAAP	\$ 1,448,126	\$ 1,913,405
	For the six months ended	
	June 30, 2009	June 30, 2008
<i>Consolidated Statements of Operations (in US \$)</i>		
Net loss under U.S. GAAP	\$(835,682)	\$(743,956)
Accretion of financing costs	(75,378)	(104,821)
Net loss under Canadian GAAP	\$(911,060)	\$(848,777)

	<u>For the three months ended</u>	
	June 30, 2009	June 30, 2008
Net loss under U.S. GAAP	\$(483,687)	\$(172,101)
Accretion of financing costs	(37,897)	(46,297)
Net loss under Canadian GAAP	\$(521,584)	\$(218,398)